

## Key Themes

This will be a full week of data, some important central bank speeches and rates decisions.

The final manufacturing and services PMI's for Nov will be released this week across the major markets.

In the US, data will focus on non-farm payrolls, the ISM's, factory orders, wholesale inventories and the first read of consumer sentiment for Dec.

This week, US Fed Vice Chairman for Supervision and Regulation, Randal Quarles, will provide testimony to the House Financial Services Committee and the Senate Banking Committee (Wed and Thu). We will look for any comments or indication of regulatory changes in the lead up to year end given the issues with repo funding.

The USTR will also announce on 2 Dec the outcome of its S.301 investigation into the digital services tax approved by the French government. This will include any proposed action.

The ECB President Lagarde will also provide testimony this week at the ECON hearing of the European Parliament this week. Eurozone data will focus on the second estimate of Q3 GDP and Germany factory orders and industrial production.

The RBA meets on Tue regarding rates in Australia. The current expectations are for rates to stay on hold until at least Feb or Mar. The Q3 GDP result will be released on Wed and growth is expected to remain low. Also out this week; building approvals and retail sales.

The Bank of Canada will also meet this week on rates.

US Treasury supply will be heavier, but with the higher value of securities maturing, there will be a relatively smaller amount of new money raised this week. The US Treasury will settle \$297bn in ST bills and notes this week raising approx. \$13.6bn in new money.

## US Treasury Issuance & Settlements

The supply of US Treasuries settling this week will somewhat heavier but with the higher value of securities maturing, there will be a relatively smaller amount of new money raised this week. The US Treasury will settle \$297bn in ST bills and notes this week raising approx. \$13.6bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
2-6 Dec	27-Nov	03-Dec	4 week bill	45			Completed
	27-Nov	03-Dec	8 week bill	35			Completed
				80	94	-14	
	02-Dec	05-Dec	13 week bill	42			Announced
	02-Dec	05-Dec	26 week bill	36			Announced
	03-Dec	05-Dec	52 week bill	26			Announced
				104	107	-3	
	25-Nov	02-Dec	2yr Note	40			Completed
	26-Nov	02-Dec	5yr Note	41			Completed
	27-Nov	02-Dec	7yr Note	32			Completed
				113	82.4	30.6	
			<b>Total - securities settling this week</b>	<b>297</b>	<b>283.4</b>	<b>13.6</b>	
			<b>Fed SOMA - Face Value of SOMA securities maturing 3 Dec</b>	<b>\$B</b>			
			Bills	1			
			<b>Reserve Management Purchase Operations - Treasury Bills</b>	<b>\$B</b>			
	03-Dec	04-Dec	Tbills 0-1yr	7.525			
	04-Dec	05-Dec	Tbills 0-1yr	7.525			
				15.050			
			<b>Reinvestment Purchases - Treasury Coupons</b>	<b>\$B</b>			
	02-Dec	03-Dec	Coupons 4.5 - 7yrs	2.425			
	03-Dec	04-Dec	Coupons 7-20yrs	1.425			
	05-Dec	06-Dec	Coupons 20-30yrs	2.225			
				6.075			

There will be several Reserve Management Purchase operations (purchase of T-Bills by the Fed) settling this week – totalling \$15bn.

The Fed will also purchase approx. \$6.1bn in Treasury coupons as a part of the restarted reinvestment of principal payments. On the 3 Dec, approx. \$1bn in T-bill securities on the Fed balance sheet will mature (and will be rolled over).

The FOMC also announced at its meeting in July that reductions of its securities holdings in the SOMA will conclude in Aug rather than at the end of Sep. Principal payments from maturing securities will be reinvested;

“...Beginning in August 2019, principal payments received from agency debt and agency MBS up to \$20 billion per month will be reinvested in Treasury securities to roughly match the maturity composition of Treasury securities outstanding; principal payments in excess of \$20 billion per month will continue to be reinvested in agency MBS. **Also beginning in August, all**

**maturing Treasury securities in the SOMA portfolio will be rolled over at Treasury auctions following usual practices.**

<https://www.federalreserve.gov/monetarypolicy/policy-normalization.htm>

## WEEK OF 2 December 2019

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### MONDAY 2 DECEMBER (US Eastern Time)

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US	US Markit Manufacturing PMI (Nov), ISM Manufacturing PMI (Nov)
Europe	ECB Lagarde Speech, Eurozone and Germany Manufacturing PMI (Nov)
Australia	AiG and Markit Manufacturing PMI's (Nov), Building Permits (Oct)
Japan	Markit Manufacturing PMI (Nov)
China	NBS Manufacturing and Non-Manufacturing PMI (Nov), Caixin Manuf PMI (Nov)
UK	Manufacturing PMI (Nov)

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### TUESDAY 3 DECEMBER

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US	ISM NY Business Conditions (Nov)
Australia	RBA Rates Decision Dec, AiG and Markit Services Indexes (Nov)
Europe	PPI (Nov)

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### WEDNESDAY 4 DECEMBER

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US	ADP Employment Change (Nov), Markit Services PMI, ISM Non-Manufacturing PMI (Nov). US Fed Speeches; Quarles Testimony
Japan	Markit Services PMI (Nov)
Australia	Q3 GDP
China	Caixin Services PMI (Nov)
Europe	Eurozone and Germany Services PMI (Nov)
UK	Markit Services PMI (Nov)

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### THURSDAY 5 DECEMBER

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US	Challenger Job Cuts (Nov), US Factory Orders (Oct). US Fed speeches; Quarles
Australia	Retail Sales (Oct), AiG Performance of Construction Index (Nov)
Europe	Germany Factory Orders (Oct), Eurozone GDP Q3, Eurozone Retail Sales (Oct)

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### FRIDAY 6 DECEMBER

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US	Non-Farm Payrolls and Household Employment Survey (Nov), Wholesale Inventories (Oct), Uni of Michigan Consumer Sentiment Prelim (Dec)
Europe	Germany Industrial Production (Oct)

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## Trade & Brexit

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### US-China Trade Talks

Headline risk remains very high around the trade talks and the phase-one deal details. An important milestone is approaching - the 15 Dec schedule increase in tariff rates on Chinese imports into the US.

The current points of contention are; the US support of the HK Democracy Bill, China requesting a rollback of all tariffs as a part of the phase one deal (not just a postponement of upcoming tariff increase) and the quantity of purchases of US agriculture products. Talks continued by phone during the week and there is not yet confirmation of a date for further talks in Beijing in Dec.

U.S. Senate Finance Committee Chairman Chuck Grassley told reporters on Tuesday that Beijing invited U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin for in-person talks in Beijing. Grassley said Lighthizer and Mnuchin were willing to go if they saw “a real chance of getting a final agreement.” <https://www.cnbc.com/2019/12/01/china-wants-tariffs-rollback-in-phase-one-trade-deal-with-us-says-chinese-media.html>

Chinese Foreign Ministry officials responded to the signing of the HK Bill in the US (emphasis added);

“China firmly opposes Hong Kong Act. We have made stern representations & strong protests to U.S.,” Geng Shuang, a spokesman for the Chinese Foreign Ministry, said in a briefing Friday. “It is a stark hegemonic practice & a severe interference in Hong Kong affairs, which are China’s internal affairs. **China will take strong counter-measures.**” <https://www.cnbc.com/2019/11/29/china-threatens-strong-counter-measures-after-hong-kong-bill-signings.html>

While some reports are mixed, there are indications that the US will likely postpone the tariffs scheduled to increase on 15 Dec. Nothing is confirmed and will likely depend on the outcome of talks in Beijing.

It’s possible a more detailed trade deal could be negotiated – and the deadline for this phase of the deal could move further out into 2020. Requests from China to roll back tariffs may require more concessions;

China’s commerce ministry said this month that removing tariffs imposed during the trade war is an important condition to any deal. The demand has U.S. officials wondering if higher Chinese purchases of U.S. farm goods, promises of improved access to China’s financial services industry, and pledges to protect intellectual property are enough to ask in return.

whether Trump will agree to remove existing tariffs depends largely on whether he believes it will benefit his re-election chances. Some White House advisers would like to see China agree to large, specific agricultural purchases, while the U.S. maintains existing tariffs for future leverage.

<https://uk.reuters.com/article/uk-usa-trade-china/beijing-tariff-demands-may-expand-u-s-china-phase-one-trade-deal-significantly-idUKKBN1XU0DH>

<https://uk.reuters.com/article/us-usa-trade-china-phasetwo/no-phase-two-u-s-china-deal-on-the-horizon-officials-say-idUKKBN1XZ00H>

The situation is likely to remain tenuous. The purchase of a specific quantity of agriculture has been a key sticking point for China.

“Beijing, for its part, is hesitant to include a specific amount of agricultural purchases in a deal, The Wall Street Journal reported. Trump has claimed Beijing agreed to purchase up to \$50 billion in U.S. farm goods.”

The more difficult issues of the negotiations have been reserved for the next phase of the negotiations. This stage of the negotiation will commence after the first deal is signed.

Reconfirming what a ‘win’ in the negotiations with China looks like – a statement of the key negotiating goals as outlined by the USTR (emphasis added);

The meetings were held as part of the agreement reached by President Donald J. Trump and President Xi Jinping in Buenos Aires to engage in 90 days of negotiations **with a view to achieving needed structural changes in China with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft of trade secrets for commercial purposes, services, and agriculture.**

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/statement-united-states-trade>

## US–Japan Trade Talks

This week, the lower house of Japan’s parliament approved the phase one of the limited trade deal with the US;

The government’s proposal to ratify the trade deal will next be brought to the upper house for a vote but its passage in the powerful lower house increases the chances it will come into force in January.

The focus then moves to phase two negotiations;

After the deal is ratified, Japan and the United States have four months to consult on further talks, and Trump has said he wants more trade talks with Japan after the initial deal.

But Japanese government sources familiar with the talks say the momentum to negotiate a deeper deal appears to have waned for now with Washington preoccupied with talks with Beijing.

The issue for phase two talks is auto tariffs;

Japan has said it has received U.S. assurance that it would scrap tariffs on Japanese cars and car parts, and that the only remaining issue was the timing. But Washington has not confirmed that.

<https://www.reuters.com/article/us-usa-trade-japan/japan-lower-house-passes-u-s-trade-deal-auto-tariffs-still-in-question-idUSKBN1XT0IK>

The bill will now be up for debate in the extraordinary session of Parliament. This session ends on 9 Dec, in time to have pact ratified for the Jan 2020 deadline.

<https://mainichi.jp/english/articles/20191015/p2g/00m/0bu/046000c>

The US Congress does not need to ratify this first more limited deal.

Details from the Congressional Research Service;

<https://crsreports.congress.gov/product/pdf/IF/IF11120#targetText=Japan's%20Diet%2C%20however%2C%20will%20have,effect%20on%20January%201%2C%202020>.

The summary of US negotiating objectives for the US-Japan trade talks;

[https://ustr.gov/sites/default/files/2018.12.21\\_Summary\\_of\\_U.S.-Japan\\_Negotiating\\_Objectives.pdf](https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf)

## US-Europe Trade Talks

On 1 Nov, the new EU commissioners take up office. Phil Hogan takes over as EU Trade Commissioner – a key role in the negotiation with the US. Once the new commissioners are in place, there will likely be further progress on the US-EU trade negotiations, as well as Brexit/EU-UK trade deal negotiations.

<https://www.ft.com/content/d5d1e928-e9c6-11e9-a240-3b065ef5fc55>

There are several fronts to the US-EU trade discussions.

### Airline Subsidies

From 18 Oct, the US has implemented tariffs on some EU imports as a part of the WTO ruling on the Airbus case. This was announced during the week on the US Federal Register;

<https://www.federalregister.gov/documents/2019/10/18/2019-22902/technical-adjustments-to-section-301-action-enforcement-of-us-wto-rights-in-large-civil-aircraft>

“The tariffs will be applied to a range of imports from EU Member States, with the bulk of the tariffs being applied to imports from France, Germany, Spain, and the United Kingdom – the four countries responsible for the illegal subsidies. Although USTR has the authority to apply a 100 percent tariff on affected products, at this time the tariff increases will be limited to **10 percent on large civil aircraft and 25 percent on agricultural and other products**. The U.S. has the authority to increase the tariffs at any time, or change the products affected.” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/october/us-wins-75-billion-award-airbus>

The counter-case where the EU is pursuing tariffs against US support for Boeing is running approx. six-months behind.

## Trade Negotiations

The key sticking point remains agriculture. The EC authorised negotiations to commence between the EU and the US – but excluding agriculture. Emphasis added;

“Today's adoption of the EU negotiating directives gives a clear signal of the EU's commitment to a positive trade agenda with the US and the implementation of the strictly defined work programme agreed by Presidents Trump and Juncker on 25 July 2018. **But let me be clear: we will not speak about agriculture** or public procurement.”

[https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm\\_source=dsms-auto&utm\\_medium=email&utm\\_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment](https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment)

““I do not think we will reach an agreement if agriculture is not included,” McKinney told reporters on a teleconference during his visit to Brussels, citing concerns raised by U.S. lawmakers and Trump.”

<https://www.reuters.com/article/us-usa-trade-eu/no-u-s-eu-trade-deal-without-agriculture-u-s-official-idUSKCN1TS2SH>

The threat of auto tariffs also remains an issue, despite the US missing the S.232 deadline of 14 Nov. <https://www.cnbc.com/2019/11/08/trump-wont-impose-tariffs-on-european-cars-eu-juncker-says.html>

## Digital Services

The USTR S.301 investigation into the digital services tax approved by the French government has been completed and will release its report on 2 Dec 2019. The USTR will announce any proposed action at that time.

“The two houses of the French parliament passed a final DST bill on July 4 and 16, and President Emmanuel Macron signed the bill into law on July 24. The DST imposes a 3 percent levy on gross revenues generated from providing two categories of digital services—“digital interface” services and “targeted advertising” services—to, or aimed at, persons in France. The DST applies only to companies that generate, from providing the taxable services, €750 million globally and €25 million for services provided to, or aimed at, persons in France.” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/november/united-states-trade-representative>

## Background

The summary of US negotiating objectives for the US-EU trade talks have been published;

[https://ustr.gov/sites/default/files/01.11.2019\\_Summary\\_of\\_U.S.-EU\\_Negotiating\\_Objectives.pdf](https://ustr.gov/sites/default/files/01.11.2019_Summary_of_U.S.-EU_Negotiating_Objectives.pdf)



## Section 232 – Car and Truck Imports

Back in May, President Trump has agreed to delay the decision to impose tariffs on auto imports as a part of the s.232 investigation on car and truck imports on national security grounds. A Reuters article during the week reported that President Trump may no longer be able to impose tariffs under this S.232 investigation because of the missed announcement deadline. Source: <https://www.reuters.com/article/us-usa-trade-autos/trump-can-no-longer-impose-section-232-auto-tariffs-after-missing-deadline-experts-idUSKBN1XT0TK>

The 1962 act is clear about the time limits that a president has for invoking tariffs to protect U.S. national security.

The article outlines other recent cases where the increase in tariffs have been challenged due to missed deadlines (Turkey and the increase in steel tariffs in 2018).

The article outlines the “escape hatch” for President Trump;

A clause in the 1962 law may offer an escape hatch for Trump. If an agreement is not reached within 180 days or proves ineffective, “the President shall take such other actions as the President deems necessary to adjust the imports of such article so that such imports will not threaten to impair the national security.” It adds that Trump would be required to publish these actions in the Federal Register, but does not specify a time frame.

For the moment, there have been no announcements made by the USTR or by the USTR on the Federal Register.

The threat of auto tariffs is likely to remain as negotiating leverage between the US and Japan and the EU. The S.232 report has not been made public, but President Trump’s statement provided some insight as to how the Commerce Dept justified the ‘national security’ grounds. There are other avenues for how these tariffs may be implemented.

## NAFTA/USMCA

“Work continues” on negotiating changes to the USMCA regarding pharmaceutical provisions and enforcement of Mexican labour reforms.

Comments from the Mexican Undersecretary for North America were positive during the week;

“United States Trade Representative Robert Lighthizer must satisfy Democrat concerns while holding on to the support of Mexico and Canada, as well as Senate Republicans. “If the amendments suggested are fine, are acceptable, are improvements, then there’s no reason why we should not be shaking hands next week,” Seade told reporters at the Mexican Embassy.”

Crucially, the trade deal has also faced resistance from labour group leaders, including Richard Trumka, president of the powerful AFL-CIO union, who last month warned that the agreement “would be defeated” if Congress voted before the U.S. Thanksgiving. American unions — who believe the original NAFTA did little to stop the flow of U.S. jobs to Mexico — are emphatic about the need to ensure labour reforms are fully carried out this time.

<https://business.financialpost.com/news/economy/usmca-ratification-is-getting-there-but-difficult-issues-remain>

The likelihood of the US ratifying the deal this year appears to be diminishing;

Pelosi has insisted the Democrats are working hard, to “get to yes” on the deal, though she recently suggested a vote is unlikely in 2019. Pushing the deal into 2020 raises the risks of it languishing amid the runup to the U.S. presidential election, analysts have warned.

<https://business.financialpost.com/news/economy/usmca-ratification-is-getting-there-but-difficult-issues-remain>

Canada has yet to approve the deal. It has been reported that Canada will wait to approve the deal until after 21 Oct elections. It was originally reported that Canada would not take steps to approve the deal until the US had ratified the deal. (Source;

<https://www.reuters.com/article/us-usa-trade-usmca/pence-upbeat-that-congress-will-pass-usmca-trade-deal-this-year-idUSKBN1W22FF>)

## US-UK Trade Talks

During his visit to the UK, President Trump announced that the US would begin talks with the UK on a trade deal as soon as Brexit was completed. The USTR has now published the summary of specific negotiating objectives for the US-UK trade negotiations;

[https://ustr.gov/sites/default/files/Summary\\_of\\_U.S.-UK\\_Negotiating\\_Objectives.pdf](https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf)

## BREXIT

The UK has now had a further Brexit extension approved – until 31 Jan 2020. This will allow time for the general election to be held on 12 Dec 2019.

Despite doing the seemingly impossible and getting a new deal from the EU, he [PM Johnson] simply doesn't have the numbers in Parliament to pass the legislation required to deliver Brexit. Holding an election in which he secures a fresh majority was his only real option.

<https://edition.cnn.com/2019/11/02/uk/boris-johnson-brexit-risk-intl-gbr/index.html>

Current Brexit documents:

Announcement; [http://europa.eu/rapid/press-release\\_IP-18-6424\\_en.htm](http://europa.eu/rapid/press-release_IP-18-6424_en.htm)

Comprehensive factsheet; [http://europa.eu/rapid/press-release\\_MEMO-18-6422\\_en.htm](http://europa.eu/rapid/press-release_MEMO-18-6422_en.htm)

Q&A Protocol on Ireland and Northern Ireland; [http://europa.eu/rapid/press-release\\_MEMO-18-6423\\_en.htm](http://europa.eu/rapid/press-release_MEMO-18-6423_en.htm)

## US Fed Speeches 2-6 December 2019

### MONDAY

### TUESDAY

### WEDNESDAY

Testimony - Vice Chair for Supervision Randal K. Quarles, Supervision and Regulation  
Before the House Financial Services Committee, Washington, D.C.

### THURSDAY

Testimony - Vice Chair for Supervision Randal K. Quarles, Supervision and Regulation  
Before the Senate Banking Committee, Washington, D.C.

### FRIDAY

<https://www.federalreserve.gov/newsevents/calendar.htm>